

ENERGY/RHG

DRAFT

Decision _____

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of KERMAN
TELEPHONE CO. U-1012-C, pursuant to Public
Utilities Code Sections 816 through 851 for
authority to issue notes in an aggregate amount
not exceeding \$6,936,700 and to mortgage utility
property.

Application 02-06-054
(Filed June 28, 2002)

O P I N I O N

Summary

This decision grants Kerman Telephone Co. (Kerman) the authority requested in Application (A.) 02-06-254.

Kerman requests authority pursuant to §§ 816-830 and 851 of the Public Utilities (PU) Code to obtain financing from the United States Government acting through the Administrator of the Rural Utilities Service (RUS) and the Rural Telephone Bank (RTB) and to issue mortgage notes in an amount not exceeding \$6,936,700.

The proceeds of the issuance are to be used primarily for the retirement of interim financing arrangements associated with acquisition and installation of equipments and the expansion and improvement of Kerman's facilities.

Notice of the filing of the Application appeared on the Commission's Daily Calendar of July 9, 2002. No protests have been received.

Background

Kerman, a California corporation, is a local exchange carrier with a statutorily granted facilities-based provider authority and is under the jurisdiction of this Commission. Kerman provides telephone service to a portion of Fresno County, California. The property owned by Kerman consists principally of telephone facilities, including central office equipment, aerial and buried cable, land, and buildings.

Pursuant to the Application, Kerman has experienced additional demand for telephone service and for system improvements. Kerman has undertaken needed plant improvements using a combination of its own cash and interim financing arrangements. However, the utility is not in a position to finance any substantial construction program out of its current earnings or reserves.

For the fiscal year ended December 31, 2001, Kerman reported total operating revenues of \$7,711,687 and net income of \$890,642, as shown in its Income Statement, attached as Exhibit A to the Application. Kerman's Balance Sheet at December 31, shown also as part of Exhibit A, is summarized as follows:

<u>Assets and other Debits</u>	<u>Amount</u>
Current Assets	\$ 2,113,998
Investments and other Assets	449,560
Net Property, Plant, and Equipment	<u>9,177,657</u>
Total	<u>\$11,741,215</u>
 <u>Liabilities and other Credits</u>	
Current Liabilities	\$ 3,023,767
Long-term Debt	1,753,898
Deferred Income Taxes	24,725
Stockholders' Equity	<u>6,938,825</u>

	Total	<u>\$11,741,215</u>
Description of Financing		

Kerman seeks authority to issue a mortgage note to RUS and a mortgage note to RTB in amounts not exceeding in the aggregate \$6,936,700. Kerman has previously made long-term secured borrowings from the Rural Electrification Administration (now RUS) and the RTB¹.

The RTB mortgage note will be in the amount of \$2,555,700 and the RUS mortgage note is \$4,381,000. Both notes will be repaid in amortizing monthly installment payments commencing two (2) years after execution and concluding fourteen (14) years after execution, with interest rates to be determined for each advance by reference to the Rural Electrification Act of 1936 and implementing regulations, which rates are essentially RTB's and RUS' cost of money. The rates are generally and consistently much lower than rates available from private and commercial lenders.

The form of the Loan Contract is attached to the Application as Exhibit B. The proposed Mortgage Notes are to be secured by a mortgage of the utility's properties and Supplement to the outstanding Supplemental Mortgage, Security Agreement and Financing Statement. The form of the Mortgage Note and Agreement is attached to the Application as Exhibits C to E.

¹ Decision (D.) 93366 dated August 4, 1981 for \$5,508,450 as extended by D.87-10-063 dated Oct. 28, 1987.

Construction Budget

Kerman's estimated construction budgets for calendar years 2002, 2003, and 2004, included as supplemental data to the Application, are as follows:

	(\$ in 000)		
	<u>2002</u>	<u>2003</u>	<u>2004</u>
Distribution improvements	5,267	1,130	410
Office equipment	23	8	10
Transportation equipment	218	134	90
Other equipment	<u>368</u>	<u>794</u>	<u>453</u>
Total	<u>5,876</u>	<u>2,066</u>	<u>963</u>

Cash Requirements Forecast

Kerman's estimated cash requirements forecast for 2002 through 2004 are summarized as follows:

	(\$ in 000)		
	<u>2002</u>	<u>2003</u>	<u>2004</u>
Funds for construction	5,876	2,066	963
Short-term debt repaid	<u>1,701</u>	<u>0</u>	<u>0</u>
Total cash required	7,577	2,066	963
Estimated cash available from internal sources	2,231	2,832	2,673
Additional funds from external sources	<u>5,964</u>	<u>973</u>	<u>0</u>
Total cash available	<u>8,195</u>	<u>3,805</u>	<u>2,673</u>

Kerman's cash requirements forecast indicates that internally generated funds will provide approximately \$2,231,000 or 29.4% of its total cash requirements of \$7,577,000 for 2002. The requested \$6.9 million debt is necessary to help Kerman meet its forecasted 2002 and 2003 cash requirements.

Capital Ratios

Kerman's capital ratios as of December 31, 2001, submitted as supplemental information to the Application, are presented below as recorded and adjusted to give pro forma effect to the proposed loan and estimated retained earnings of \$1.8 million for years 2002 through 2004:

	<u>Recorded</u>		<u>Pro Forma</u>	
	(\$000)	%	(\$000)	%
Long-term debt	1,814	20.7	8,566	49.5
Common equity	<u>6,939</u>	<u>79.3</u>	<u>8,739</u>	<u>50.5</u>
Total capitalization	<u>8,753</u>	<u>100.0</u>	<u>17,305</u>	<u>100.0</u>

The Commission does not by this decision determine that the construction budget, the cash requirements forecasts, and the capital structure presented herein, are necessary or reasonable for ratemaking purposes.

Use of Proceeds

Kerman states in the Application that the proceeds of the mortgage notes will be used for multiple purposes, including purchase of additional Class B shares of RTB (a condition to the loan), retirement of interim financing

arrangements, and supply of required capital associated with acquisition and installation of a new digital switch equipped with advanced intelligent network, signaling system 7, and custom local area signaling services capabilities, construction of new fiber optic cable, and acquisition and installation of other new and upgraded central office equipment and line equipment. The approximate allocation of the loan funds follows:

Rural Telephone Bank shares	\$ 121,700
Switch and remote switch	3,921,000
acquisition and installation	
Outside plant	2,769,000
Engineering costs	<u>125,000</u>
Total	<u>\$6,936,700</u>

Kerman's proposed project is consistent with its provision of telecommunications services as a public utility. Because long-term borrowings from the RUS and the RTB represent a much lower cost of capital than either equity or other forms of debt, it is beneficial to both utility and customers.

Environmental Impact

The California Environmental Quality Act (Public Resources Code Section 21000, et seq., hereafter "CEQA) applies to discretionary projects to be carried out or approved by public agencies. A basic purpose of CEQA is to inform governmental decision-makers and the public about the potential, significant environmental effects of the proposed activities. (CEQA Guideline Section 15002).

The Application states that Kerman seeks approval to enter into a loan agreement as required by §§ 816-830 and 851 of the PU Code, and that the purpose of the funds sought is to cover capital requirements to expand and improve its facilities. Kerman has financed and completed the bulk of the proposed activities using a combination of its own cash and interim financing agreements. However, to cover capital requirements not available through current earnings or reserves and to replace interim financing arrangements, Kerman seeks authorization from the Commission to borrow the necessary funds.

To the extent that there have been specific project activities and new construction associated with this financing request which would warrant environmental review under CEQA, it is our understanding that these activities were already more than 95% complete at the time we received this Application for consideration, and that any required environmental review had been undertaken as part of the local permitting process.

This decision should in no way be construed an implied or expressed waiver of applicable environmental regulations for any capital improvement undertaken by Kerman relative to this decision.

PU Code § 817(d) provides that debt issues may be used for the discharge or lawful refunding of obligations.

PU Code § 823(d) provides that no note payable at a period of not more than twelve months after the date of issuance of such note shall, in whole or in part, be refunded by any issue of stocks or stock certificates or other evidence of interest or ownership, or of bonds, notes of any term or character, or any other evidence of indebtedness, without the consent of the Commission.

For purposes of this Application and pursuant to PU Code § 823(d), we will permit Kerman to replace short-term debt with the authority granted in this decision.

Pursuant to General Order No. 24-B, we will require Kerman to file monthly a statement showing all receipts and disbursements from the loan authorized in this decision.

In Resolution (Res.) ALJ 176-3091 dated July 17, 2002; the Commission preliminarily categorized this Application as ratesetting, and preliminarily determined that hearings were not necessary. No formal protests have been received. Given these developments, a public hearing is not necessary, and there is no need to alter the preliminary determinations made in Res. ALJ 176-3091.

This is an uncontested matter in which the decision grants the relief requested. Accordingly, pursuant to § 311(g)(2) of the PU Code, the otherwise applicable 30-day period for public review and comment is being waived.

Kerman's application is approved.

Findings of Fact

1. Kerman is a public utility subject to the jurisdiction of this Commission.
2. Kerman needs external funds for the purposes set forth on pages 5 and 6 of this order.
3. The required environmental review for the specific project activities and new construction associated with this financing had been undertaken by Kerman.

4. The Commission does not by this decision determine that the construction budget, the cash requirements forecasts, and the capital structure presented herein are necessary or reasonable for ratemaking purposes.

5. Internally generated funds are insufficient to meet construction needs.

6. RUS/RTB loans have interest rates favorable to company and customers.

7. The execution of a Telephone Loan Contract Amendment and supplemental mortgages would not be adverse to the public interest.

8. Notice of the Filing of the Application appeared on the Commission's Daily Calendar of July 9, 2002. There is no known opposition and there is no reason to delay granting the authority requested.

Conclusions of Law

1. A public hearing is not necessary.

2. The Application should be granted to the extent set forth in the order that follows.

3. The proposed financing is for proper purposes and would not be adverse to the public interest.

4. It is Kerman's responsibility to abide by and comply with any applicable environmental regulations for any capital improvement undertaken relative to this decision.

5. This Application for financing approval does not require environmental review.

6. PU Code 817(d) provides that debt issues may be used for the discharge or lawful refunding of obligations.

7. PU Code 823(d) provides that no note payable at a period of not more than 12 months after the date of issuance of such note shall be refunded, in

whole or in part, by any issue of stocks or stock certificates or other evidence of interest or ownership, or of bonds, notes of any term or character, or any other evidence of indebtedness, without the consent of the Commission.

8. General Order No. 24-B requires utilities with financing authorities from the Commission to submit monthly reports showing receipts and disbursements from the sale of stocks, bonds, and other evidences of indebtedness.

9. Kerman should pay the fee determined in accordance with § 1904(b) of the PU Code.

10. The following order should be effective on the date of signature.

O R D E R

IT IS ORDERED that:

1. On or after the effective date of this order, Kerman Telephone Co. (Kerman), upon terms and conditions consistent with those described at page 3 of this decision, is authorized to enter into a Telephone Loan Contract Amendment with the Rural Utilities Service (RUS) and the Rural Telephone Bank (RTB) in principal amount not exceeding \$6,936,700, and to execute and deliver the Mortgage Note, Supplemental Mortgages of Kerman's properties, Security Agreement, and Financing Statements.

2. Kerman shall apply the proceeds of the loan for the purposes described at pages 5 and 6 of this decision.

3. The money, property, or labor to be procured or paid for by the loan proceeds is to be used solely for the purposes specified on pages 5 and 6 of

this order. The proceeds shall not be charged to operating expenses or income.

4. Kerman shall file with the Commission's Telecommunications Division copies of the Telephone Loan Contract Amendment, the Mortgage Note, and Supplemental Mortgages within thirty (30) days of execution.

5. On or before the 25th day of each month, Kerman shall file the reports required by General Order Series 24.

6. The authority granted by this order shall become effective when Kerman pays \$7,712 as required by § 1904(b) of the Public Utilities Code.

7. Application 02-06-054 is granted as set forth above.

8. Application 02-06-054 is closed.

This order is effective today.

Dated _____, at San Francisco, California.